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EINV, UK  
SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -  
MAY 28

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SENV: Prestige's disaster continues  
EINV/ETRD: Spanish Economy slowing down  
EFIN:PTER: Real estate boom linked to Money Laundering  
EFIN/ETRD: UK's Permira set to buy Caprabo  
KIPR: Pharmaceutical patents may benefit from patent  
proteccion  
EAGR: French President looking for allies on agriculture and  
DOHA  
EINV/ECON: Housing prices to drop sooner than expected

PRESTIGE OIL SPILL LASTING EFFECT ON CLEAN-UP CREWS?

¶1. (U) A recent study on over 6,000 crewmembers who worked in 2002 to clean up the Prestige tanker oil spill off the coast of Galicia shows that thousands of the original clean-up crew are now suffering health problems that include breathing difficulties and chronic coughs. The study, is expected to be formally published in the next edition of the American Journal of Respiratory and Critical Care Medicine and was based on surveys of 6,869 clean up crew workers.

LOWER GROWTH RATE PREDICTED FOR 2008 AT 3.2%

¶2. (U) According to a general consensus among Spain's leading institutes, the Spanish economy is expected to grow by 3.2% in 2008, down .5 percentage points from an estimated 2007 growth rate of 3.7%. The studies anticipate that decreased construction will play a role in this slowdown, but say that the economy will be able to absorb this due to strong investment in public works and the positive influence of growing economies of other European countries. Continued immigration is expected to offset the slowdown in the real estate market somewhat although anticipated higher interest rates will cause a slowdown in consumer spending in general. The 3.2 percent rate for 2008 is higher than the 2.7 percent growth rate predicted by OECD.

FINANCIAL NOTIFICATION NUMBERS DISPARATE WITH INVESTIGATIONS

¶3. (U) Financial Intelligence Unit (SEPBLAC) receives 78 % more notifications in 2006 than in 2005. There were fewer SEPBLAC investigations in 2006, however, causing criticism by the OECD. (Comment: It appears that banks and other financial institutions are taking their reporting requirements more seriously. Given the widespread public assumption in Spain that the country's real estate boom is being accompanied by massive money laundering, Spanish authorities are under more pressure to pursue more cases. This piece is based on a newspaper article that did not discuss terrorism finance.) (Expansion, May 25, 2007)

#### UK INVESTING HEAVILY IN SPAIN

¶4. (U) UK-based private equity firm Permira front-runner to buy Spanish supermarket chain Caprabo. Caprabo is in trouble as a result of competition from a Spanish low-cost equivalent of Wal-Mart, Mercadona. Permira is quite active in Spain. Recently it purchased the pizza delivery company Telepizza for Euros 850 million. (Financial Times, May 30, 2007)

#### PRODUCT PATENT PROTECTION FOR PHARMACEUTICAL PATENT HOLDERS

¶5. (U) European Patent Office issues recommendation suggesting that pharmaceutical process patent holders can also benefit from product patent protection: The issue arises because prior to 1992, drug companies could only get process patent protection. The R&D-based companies, among them major U.S. firms, would like to have product patent protection for a number of their blockbuster drugs patented prior to 1992, thereby effectively benefiting from patent protection for a few more years. In order to achieve this goal, the R&D-based firms have filed lawsuits in Spain, a few of which they have won. The companies have also offered Euros 300 million to the Spanish government to co-finance a research consortium if the Spanish government agrees to provide retroactive product patent protection. The government has told the Embassy that while it is sympathetic to the R&D-based industry, it would be very difficult to extend product patent protection retroactively, among other reasons because it might face lawsuits from generics manufacturers. (Expansion, May 29, 2007)

#### FRENCH PRESIDENT, SARKOZY TO DISCUSS DOHA AND AGRICULTURE WITH ZAPATERO

¶6. (U) The newly elected President of France, Nicolas Sarkozy, paid a visit to President Zapatero on May 31, 2007. It was his first visit as President of France, and he was

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reported to be interested in addressing several important political interests shared by both countries. We suspect that among the issues, he addressed the topic of the Doha Development Agenda negotiations, in particular their shared interests in the agriculture chapter. In the north of France President Sarkozy is reported to have told his audience "Europe needs to remain a strong agricultural power, and a place where the young can become farmers if they so choose." Within this context he is also reported to have said: "This is an essential question for us and if they do not understand that at the WTO table, France will use its veto."

¶7. (U) The Zapatero Government has been consistent in its support for a Doha deal. Spain does have major market interests in the negotiations on agriculture, including the export of olives, olive oil, wine, vegetable and fruit products, etc. However, their interest in protecting sensitive agricultural activities far outweigh their market access objectives. In this sense, we expect that the two presidents will be of one mind regarding the "not so likely possibility" of EC Member States offering greater negotiating flexibility on agriculture tariffs to the European Commission's lead negotiator (Peter Mandelson) in the Doha Development Agenda negotiations. It has been reported from Geneva that without the additional EC negotiating flexibility on agriculture tariffs, negotiators from the 148 WTO members will be hard pressed to come to an agreement.

#### BBVA STUDY CONFIRMS THE RUMORS

¶8. (U) A BBVA study has confirmed the projections of dropping real estate prices beginning as early as next year. Jose Luis Escriva, BBVA Director of Economic Studies, predicts a significant decrease in housing prices next year. The drop will be slow in coming unlike more rapid drops of 15% experienced in the early 1990's. Nonetheless, Spain is expected to experience a gradual adjustment in the coming

months in the real estate sector as the prices will continue to rise above the inflation rate. One study indicates a rhythm of a 4% increase this year and just 1% next year.

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